

## Message Text

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14

ACTION EB-07

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /075 W

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R 260501Z AUG 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6400

INFO AMCONSUL HONG KONG

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HONG KONG FOR TREASURY REP SHARPE

E.O. 11652: N/A

TAGS: EFIN, ID

SUBJECT: CAPITAL MARKET IN INDONESIA

1. SUMMARY: PROF. DAVID KLEINMAN OF FORDHAM UNIVERSITY, WHO CLAIMS TO HAVE PLAYED KEY ROLE IN EVOLUTION OF BRAZILIAN CAPITAL AND STOCK MARKETS, RECENTLY VISITED JAKARTA. HE MET WITH KEY GOI FINANCIAL OFFICIALS. IT IS POSSIBLE HIS PRESENCE COULD BE STIMULANT NEEDED TO CREATE MARKETS THAT GOI HAS BEEN SEEKING FOR SEVERAL YEARS. END SUMMARY.

2. AS DEPARTMENT IS AWARE GOI HAS BEEN SEEKING WAYS TO IMPLEMENT ITS DESIRE TO ESTABLISH BOTH CAPITAL AND STOCK MARKETS. SINCE 1970 THERE HAVE BEEN NUMEROUS ADVISORS, CONSULTANTS, RESEARCHERS, ETC., WHO HAVE PREPARED REPORTS, RECOMMENDATIONS AND DRAFT LEGISLATION. AS PART OF THIS DEVELOPMENT THERE WERE AUTHORIZED A NUMBER OF "NON-BANK FINANCIAL INSTITUTIONS" WHOSE SPECIFIC PURPOSE WAS TO OPERATE WITHIN A CAPITAL MARKET. THERE ARE SEVEN SUCH LIMITED OFFICIAL USE

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INSTITUTIONS INVOLVING AMERICAN BANKS AND FINANCIAL

GROUPS AS FOLLOWS: ASIAN & EURO-AMERICAN CAPITAL CORP. LTD. (P.T. ASEAM), FINANCIAL CORPORATION OF INDONESIA (P.T. FINCONESIA), INDONESIAN INVESTMENTS INTERNATIONAL (P.T. INDOVEST), P.T. INTER-PACIFIC FINANCIAL CORPORATION, MERCHANT INVESTMENT CORPORATION (P.T. MERINCORP), MULTINATIONAL FINANCE CORPORATION (P.T. MULTICOR), AND P.T. MUTUAL INTERNATIONAL FINANCE CORPORATION. IMPLEMENTATION OF ALL OF VARIOUS RECOMMENDATIONS AND PROPOSALS HAS BEEN DELAYED INORDINATELY BECAUSE OF DILEMMA FACED BY GOI IN ITS DESIRE TO AVOID SKEWING OF BENEFITS OF SUCH A CAPITAL AND STOCK MARKET TOWARDS NON-INDIGENOUS INDONESIANS AND FOREIGN GROUPS. GOI ALSO FEARFUL THAT ASTUTE FINANCIAL INSTINCTS OF NON-INDIGENOUS INDONESIANS WOULD SEE THEM "CREAMING" THE MARKET IN ITS INITIAL STAGES.

3. ON AUGUST 14 E/CM COUNSELOR MET WITH PROFESSOR DAVID KLEINMAN WHO IS A CONSULTING INTERNATIONAL ECONOMIST AND PROFESSOR OF FINANCE AT FORDHAM UNIVERSITY IN NEW YORK. KLEINMAN VISITED INDONESIA ON A PERSONAL BASIS ON HIS RETURN TO U.S. FOLLOWING A 3-MONTH CONSULTANCY CONTRACT WITH GOVERNMENT OF AUSTRALIA. HE HAD WRITTEN TO KEY SENIOR GOI OFFICIALS WHOSE NAMES HE HAD BEEN GIVEN BY INDONESIAN CONSUL GENERAL IN NEW YORK. HIS PURPOSE IN VISITING WITH EMBASSY WAS TO REVIEW CURRENT FINANCIAL/ECONOMIC SCENE, AND GAIN SOME INSIGHTS, FACTS AND ADVISE WITH REGARD TO SEEING GOI OFFICIALS. IT WAS IMMEDIATELY EXPLAINED TO HIM THAT HE WAS ATTEMPTING TO MAKE APPOINTMENTS IN THE PERIOD AROUND INDEPENDENCE DAY, AND THAT IT WAS UNLIKELY THAT HE WOULD BE ABLE TO SEE ANYONE BEFORE THE 18TH.

4. KLEINMAN SAID THAT HE WAS ONE OF THE AUTHORS OF PLAN WHICH RESULTED IN SUCCESSFUL ESTABLISHMENT OF BRAZILIAN CAPITAL MARKET AND STOCK MARKET. HE SAID HE RECOGNIZED AN ANALOGOUS SITUATION EXISTING IN INDONESIA, PARTICULARLY WITH REGARD TO PRESENCE OF ABOVE-NOTED MERCHANT BANK ORGANIZATIONS. EMBASSY PUT HIM IN TOUCH WITH CITIBANK JAKARTA BRANCH VICE PRESIDENT JAMES COLLINS WHO ASSISTED IN SUBSEQUENT SUCCESSFUL VISIT FOR KLEINMAN.

5. KLEINMAN ADVISED E/CM COUNSELOR ON AUGUST 21 THAT HE LIMITED OFFICIAL USE

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HAD NOT ONLY HAD EXTENSIVE DISCUSSIONS WITH GOVERNOR OF BANK INDONESIA AND MINISTER OF FINANCE BUT ALSO TWICE MET WITH GOI INTER-AGENCY COMMITTEE ON CAPITAL MARKET AND HAD LECTURED AT CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES. HE SAID THAT SENIOR FINANCIAL OFFICIALS OF GOI WERE FAMILIAR WITH HIS WORK IN BRAZIL. HE ALSO REPORTED THAT BANK INDONESIA ASKED IF HE COULD RETURN TO INDONESIA AS CONSULTANT WITHIN NEXT SIX MONTHS TO ATTEMPT TO WORK

OUT IMPLEMENTATION OF SOME OF HIS IDEAS IN LINE WITH  
OTHER PROPOSALS UNDER CONSIDERATION BY GOI.

6. COMMENT: SUGGEST THAT IF DEPARTMENT IS APPROACHED  
BY KLEINMAN AND THAT IF INFORMATION HE HAS GIVEN US  
REGARDING HIS EXPERIENCE IN BRAZIL IS VALID, THAT DEPART-  
MENT BE PREPARED TO SUPPORT HIM IN ANY ENDEAVORS TO ASSIST  
GOI IN WHAT EMBASSY JUDGES TO BE SIGNIFICANT GAP IN  
DEVELOPMENT OF INDONESIA'S COMMERCIAL FINANCIAL STRUCTURE.  
WE BELIEVE THAT KLEINMAN COULD PLAY CATALYTIC ROLE IN  
LIGHT OF ALL EFFORTS THAT HAVE GONE BEFORE AND THAT HIS  
TIMING MIGHT BE PROPITIOUS IN GETTING THIS DEVELOPMENT  
STARTED.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** VISITS, FINANCIAL MARKETS, BANK BRANCHES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 26 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976JAKART11177  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ElyME  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 26 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26 MAY 2004 by BoyleJA>; APPROVED <26 MAY 2004 by ElyME>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CAPITAL MARKET IN INDONESIA  
**TAGS:** EFIN, ID, (KLEINMAN, DAVID)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006